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NECA NATIONAL EXCHANGE
CARRIER ASSOCIATION INC.

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August 28, 1992

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Re: Regulatory Reform for Local
Exchange Carriers Subject to
Rate of Return Regulation

CC Docket No. 92-135 ✓

Dear Ms. Searcy:

Enclosed herewith for filing with the Commission are the original and five copies of the National Exchange Carrier Association, Inc.'s Comments in the above-captioned matter.

Please acknowledge receipt hereof by affixing a notation on the duplicate copy of this letter furnished herewith for such purposes and remitting same to bearer.

Very truly yours,

Joanne S. Bochis
Joanne S. Bochis

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

Federal Communications Commission
Office of the Secretary

In the Matter of:

Regulatory Reform for
Local Exchange Carriers
Subject to Rate of Return
Regulation

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CC Docket No. 92-135

COMMENTS OF THE
NATIONAL EXCHANGE CARRIER ASSOCIATION, INC.

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August 28, 1992

SUMMARY

The National Exchange Carrier Association, Inc. (NECA) is submitting these comments in response to the Commission's Notice of Proposed Rulemaking in CC Docket No. 92-135, Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation. In its comments, NECA voices its support for the Commission's efforts to bring regulatory reform to exchange carriers (ECs) remaining under rate of return regulation.

The main focus of NECA's comments is on proposals to streamline traditional rate of return regulation, including those proposed by the Commission and additional recommendations initiated by NECA. While NECA supports the Commission's goal of reducing the level of detail in comprehensive tariff filings, NECA emphasizes that it will need to continue to perform annual access tariff filings which base rates on prospective revenue requirements and demand. NECA demonstrates, through analysis of past years' data, that the use of purely historical data or the use of year-over-year growth-trended historical data would not have produced compensatory rates for NECA pool participants.

Although NECA will need to continue filing annual access tariffs based on prospective data, it suggests several ways to streamline the associated administrative burdens for all remaining rate of return carriers, including the application of a modified two percent standard proposed by the Commission for NECA new services as well as existing de minimis rates. In addition, NECA is recommending that traditional rate of return carriers should be

permitted a pricing flexibility option to change rates by five percent up or down during the tariff period.

Another important way to streamline administrative burdens of rate of return ECs would be to allow small telephone companies to elect average schedule settlements status. NECA proposes that the Commission's rules be revised to allow eligible companies to first make an average schedule election by December 31, 1992 for an effective date of July 1, 1993, so that these changes can be reflected in NECA's 1993 Annual Access Tariff Filing. Beginning with 1994 tariffs, the option would continue with a shorter notification requirement. NECA also proposes certain safeguards so that these status changes will not be disruptive.

In response to the Commission's inquiry on incentive regulation for the pools, NECA proposes a revision to Part 69 to encourage the development of optional incentive plans for pooling companies. In addition, NECA requests that the Commission clarify that ECs electing optional incentive regulation be allowed exogenous-like treatment of their Long Term Support obligations to the NECA pools. NECA also proposes Part 69 rule revisions to reflect current pool settlement processes that NECA follows pursuant to a continuing Commission waiver.

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In the Matter of:)
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Regulatory Reform for)
Local Exchange Carriers) CC Docket No. 92-135
Subject to Rate of Return)
Regulation)

COMMENTS

The National Exchange Carrier Association, Inc. (NECA) submits these comments in response to the Commission's Notice of Proposed Rulemaking in the above captioned proceeding.¹ NECA is a not-for-profit, membership association, serving over 1400 local exchange carrier study areas.² Many of these study areas participate in the NECA Common Line and Traffic Sensitive Pools which are subject to rate of return regulation.

I. NECA SUPPORTS THE COMMISSION'S OBJECTIVES IN THIS RULEMAKING.

NECA supports the Commission's efforts to bring regulatory reform to exchange carriers (ECs) not subject to price cap regulation. The Notice proposes changes to current rate of return

¹ Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation, Notice of Proposed Rulemaking, CC Docket No. 92-135, (FCC 92-258), released July 17, 1992 (Notice).

² NECA members include all local exchange carriers in the United States, Puerto Rico and the U.S. Virgin Islands.

regulation as well as two optional regulatory plans.³ NECA has supported similar Commission efforts in the past, such as the price cap proceeding,⁴ and believes it is beneficial to reduce regulatory burdens for the remaining EC study areas not subject to price cap regulation.

As acknowledged by the Commission, current Part 61 cost support rules were written so that the Commission could adequately review tariff proposals of the largest carriers.⁵ These large carriers, representing 94 percent of EC revenue requirements, are no longer subject to these rules.⁶ As its tariff participants are the largest group of ECs remaining under traditional rate of return

³ The Notice at ¶ 4 proposes regulatory reform in three parts: 1) an optional incentive plan to be available to any non-price cap, non-NECA pool participating exchange carrier (Under this plan ECs generally would base their interstate access rates on historical data with conditional ability to reflect known and measurable changes.); 2) an expansion of existing §61.39 rules to include common line rate elements (Under current §61.39 rules, Subset 3 EC's with less than 50,000 access lines may develop and file traffic sensitive rates on a biennial basis using historical data.); and 3) simplification of traditional rate of return regulation for ECs electing neither of the above options.

⁴ See, NECA's Comments and Replies, filed October 19, 1987 and December 4, 1987, respectively, in response to Notice of Proposed Rulemaking, CC Docket No. 87-313, 2 FCC Rcd 5208 (1987); NECA Comments and Replies, filed June 26, 1988 and August 26, 1988, respectively, in response to Further Notice of Proposed Rulemaking, CC Docket No. 87-313, 3 FCC Rcd 3195 (1988); NECA's Comments filed June 17, 1989 in response to Order and Second Further Notice of Proposed Rulemaking, CC Docket No. 87-313, 4 FCC Rcd 2873 (1989); NECA Supplemental Comments and Reply filed May 7, 1990 and January 8, 1991 respectively; and NECA Petition for Partial Reconsideration of Second Report and Order, 5 FCC Rcd 6786 (1990), and Erratum, 5 FCC Rcd 7664 (1990), filed November 21, 1990.

⁵ Notice at ¶ 41.

⁶ Id.

regulation and representing the majority of the geographical area of the United States, NECA focuses its comments on those parts of the Notice proposing to streamline basic rate of return regulation.⁷

In these comments, NECA proposes:

- the NECA pools must have the ability to file annual tariff filings that rely on forecasts;
- recommendations for reducing the administrative burdens of rate of return carriers associated with introducing new service offerings and extending this streamlining to existing de minimis rate elements;
- that pricing flexibility provisions should be extended to traditional rate of return carriers;
- that ECs electing either of the new optional incentive plans should be allowed exogenous-like treatment of their Long Term Support obligations;
- an optional incentive plan rule for the NECA pools as suggested in the Notice;
- rule modifications that would allow additional qualified small ECs to convert to average schedule status; and
- rule modifications to reflect pool settlement methods in use pursuant to Commission waiver since 1984.

NECA supports the Commission's efforts to bring regulatory reform to ECs remaining under rate of return regulation. NECA

⁷ NECA's Comments are limited regarding the other two regulatory options in this Notice. NECA supports the Commission's proposal at ¶ 36 that NECA file a simplified terms and condition tariff for use by ECs electing §61.39 rules for CL rates. NECA currently provides this vehicle for §61.39 traffic sensitive rates in its interstate access tariff. In addition, NECA believes rate of return enforcement and represcription rules should be adjusted. NECA will comment on rate of return issues in the Commission's separate proceeding in CC Docket No. 92-133. (Amendment of Parts 65 and 69 of the Commission's Rules to Reform the Interstate Rate of Return Represcription and Enforcement Processes, Notice of Proposed Rulemaking, (FCC 92-256), released July 14, 1992.)

stresses, however, that retaining prospective annual tariff filings is compatible with this Commission goal and is essential for rate of return ECs.

II. THE COMMISSION'S PROPOSAL TO REFORM RATE OF RETURN REGULATION.

The Commission's Notice invites comment on its proposals to modify traditional rate of return regulation rules. Specifically, comments are invited on:

- the frequency of comprehensive tariff filings as required under §69.3 rules;⁸
- the methodologies used to project costs and demand for these filings;⁹ and
- new procedures for streamlining the introduction of new service offerings.¹⁰

NECA demonstrates below that annual access tariff filings with rates based on prospective revenue requirements and demand establish the best foundation for rate development for NECA's pooling environment. Streamlining the procedures for both new and existing tariff offerings has the potential for relieving substantial administrative burdens on small and mid-size companies.

⁸ Notice at ¶ 43. The Commission states that "it may be adequate to require baseline tariff filings every other year."

⁹ Notice at ¶ 44. The Commission has suggested that these methodologies "may also be simplified and still provide sufficient information to set just and reasonable rates. Specifically, projected costs and demand may be developed as simple extrapolations of historical costs and demand."

¹⁰ Notice at ¶ 45.

II.A. NECA Pools Require Annual Comprehensive Filings With Rates Based on Prospective Revenue Requirements and Demand.

NECA supports the Commission's goal of reducing the level of detail in comprehensive filings. NECA has reviewed the possibility of setting access rates on historical data by developing traffic sensitive rates on both purely historical data and year-over-year growth trended historical data. As will be shown, neither approach produces compensatory rates for NECA's pool participants. While the proposed methodology may be attractive for some companies, it would not, based on this analysis, produce compensatory rates for NECA's pool members. NECA must, therefore, retain the ability to perform annual filings which base rates on prospective revenue requirements and demand.

NECA has determined that projections based solely on historical trends ignore recognition of future network upgrades and result in an understatement of test period costs. Conversely, use of historical trends overstates demand in the test period.¹¹ Understatement of test period revenue requirements, coupled with an overstatement of access demand, results in severe underearnings for companies participating in the NECA pools.

¹¹ The overstatement of demand from this trending is due to some unique circumstances and also reflects a different economic climate. Demand history includes a number of years in which an increase in subscriber line charges resulted in significant interexchange carrier rate reductions and access demand stimulation. Further, in contrast to current statistics, demand also reflected a rapidly growing economy. As recently as 1989, the final year of increasing subscriber line charges, the annual switched access growth rate for the current NECA Traffic Sensitive Pool was 14.8 percent -- more than double the demand growth projection for 1992.

While history may provide some insight into the general trend of costs, it does not recognize the rapidly changing technology that NECA pool members are incorporating into their networks (e.g., Signaling System 7, installation of fiber optic facilities and central office equipment upgrades to provide equal access capability).¹²

In addition to technology changes, there are still other important factors that would not be reflected in rates were they based on historical data. First, the exhaustion of numbers in the North American Numbering Plan (NANP) will require significant expenditures for switch software modifications in the mid-1990's. Second, changes in costs due to Financial Accounting Standards Board (FASB) and Commission rules such as those pertaining to other post-retirement and pension benefit expenses (OPEB) and the dial equipment minutes (DEM) transition respectively would also not be reflected in historic trends.

Based on NECA's current view of 1991 cost and demand,¹³ NECA would have required a composite traffic sensitive rate (revenue requirement per minute of use) of \$0.0510 to recover costs and earn

¹² See NECA's Access Market Survey results, released June 1992, titled Modernizing Rural America -- Investments in new technologies by small telephone companies for further information regarding this rapid use of technology by small and mid-size exchange carriers.

¹³ Final costs and revenues for 1991 will not be available until the 24-month settlement adjustment period ends in December 1993. Historically, earnings have eroded throughout the 24-month period. (See NECA F.C.C. Tariff No. 5 Transmittal No. 489, filed April 2, 1992, (NECA 1992 Annual Access Tariff Filing) for a detailed description of earnings erosion.)

an 11.25 percent rate of return on investment. If NECA had used 1989 as the base year for developing its 1991 rates under the proposed trended growth scenario, the composite T/S rate would have been only \$0.0484. Using actual 1991 demand results together with the rate derived from 1989 data, a revenue shortfall of \$31 million and pool earnings approximately 125 basis points below authorized (10.01 percent) would have resulted.¹⁴

Additionally, compliance with other Commission rules necessitates that NECA access tariffs be filed on an annual basis with prospective revenue requirements and demand. For example, Part 69 requires an annual certification or revision to interstate average schedules.¹⁵ Each year NECA examines its average schedule formulas, with the assistance from many industry participants, to determine if revisions should be made to the schedules for the prospective period. To date, average schedule modifications have been filed at each scheduled interval and, when approved, incorporated into the annual tariff filing. Average schedule companies represented 40 percent of total Traffic Sensitive Pool

¹⁴ If a purely historical approach had been substituted for the trended methodology, the composite rate would have been only slightly higher (\$0.0486). This rate, given actual demand, would have produced an earnings shortfall of \$29 million. NECA has performed additional analyses on the data underlying its currently effective rates, using various models for trending historical data to produce test period revenue requirements and demand. Each scenario resulted in significant revenue shortfalls and underearnings.

¹⁵ 47 C.F.R. §69.606.

revenue requirement forecasts for the 1992/1993 tariff period.¹⁶ Since 1986 the schedule changes have figured prominently in rate development processes for NECA's annual access tariff filings.

Similarly, Commission rules (47 C.F.R. §69.3(e)(6)) allow ECs to notify NECA, by December 31st of each year, whether they intend to participate in NECA's Common Line and Traffic Sensitive tariffs for the next annual tariff period. NECA then bases the subsequent year's annual access tariff filing upon projected cost and demand of the participating ECs. Over the past three years, an average of 20 carriers per year have elected to change their participation in NECA's tariffs.¹⁷ These participation changes cause annual fluctuations in both revenue requirement and demand projections which would not be reflected through the use of historical data.

Given the importance of annual prospective filings to the NECA pools, every effort should be made to eliminate unnecessary administrative requirements associated with these filings. NECA agrees with the Commission's tentative conclusion that the level of detail required to support tariff filings under the current rate of return regulation is excessive.¹⁸ For example, most Tariff Review Plan reports could be eliminated in recognition that the ability of

¹⁶ See NECA 1992 Annual Access Tariff Filing at Volume 2, Development of Baseline Revenue Requirements.

¹⁷ See NECA's Letters sent on January 12, 1990, January 14, 1991 and January 13, 1992 to Mr. Richard Firestone, Chief, Common Carrier Bureau listing exchange carriers either exiting or entering the Common Line, End User and/or Traffic Sensitive tariffs for the 1990 through 1992 tariff period.

¹⁸ Notice at ¶ 45.

small and mid-size carriers to provide this detail is very limited and their revenue requirements are a small portion of industry revenues. The Commission's proposal to streamline the introduction of new service offerings, together with NECA's proposed extension of the streamlined provisions to existing services, as documented below, will also reduce the level of detail required to support tariff filings.

II.B. Streamlining New Service Introductions and Extending this Streamlining to Existing De Minimis Rate Elements is in the Public Interest.

The Commission's Notice seeks comment on the desirability of streamlining procedures for carriers introducing new interstate access services.¹⁹ Customers of small and mid-size carriers often request services that are similar, if not identical, to services of larger carriers. The Commission has recognized that new services and new technologies are as important to small towns and rural areas as they are to urban areas.²⁰ NECA believes it is desirable to streamline procedures for introducing new interstate access services and that this policy should extend to existing de minimis access services.²¹

Because of the detailed cost support required by the current

¹⁹ Id.

²⁰ Id.

²¹ The Commission has defined de minimis new service offering revenues to be those with "two percent or less of a non-price cap company's total annual operating revenue." (Notice at ¶ 18) NECA recommends that for its pools this definition should be "two percent or less of total interstate access revenues."

rules, it is often difficult for small ECs and NECA to respond to the need to tariff new services in a timely manner. A primary reason for delay in introducing new rate elements is the difficulty member companies experience in providing NECA with data required to develop the rates. Once NECA has gathered data, it requires extensive review and discussion with ECs to identify and resolve data anomalies or data omissions.

For this reason, NECA supports streamlined procedures for introducing new service offerings. These procedures should include a presumption of lawfulness for new services, provided that the projected revenues for the service would be less than two percent of the combined Common Line and Traffic Sensitive Pools' total interstate access revenue requirement.²²

The Commission has also proposed a limitation that rate levels for such new services should be set initially no higher than those of a neighboring EC offering the same service. NECA requests that the Commission authorize NECA to set its pool rates for new services at a level not to exceed the highest filed price cap carrier rate. Since NECA's interstate access rates are applied uniformly by all 1,200 pool participants across the United States, Puerto Rico, and U.S. Virgin Islands, NECA's tariff is applicable in territories that neighbor every price cap carrier. The Commission should specify in its final order that this is a correct application of the rule.

²² This proposal differs from the Commission's Notice at ¶ 45 (see note 21 supra).

The rate levels of small and mid-size exchange carriers are typically much higher than those of price cap carriers, due to the lack of economies of scope and scale available to companies serving rural areas. As such, the highest price cap carrier rate may still not provide an adequate amount of revenue to the pool. NECA requests, therefore, that the Commission also permit NECA the option of filing new service rates based on a ratio of price cap element to subelement rates, as long as the rate meets the de minimis level of revenues standard.

An example will illustrate how this ratio method would work. The average ratio of Basic Service Element (BSE) rates for Automatic Number Identification (ANI) to the Local Switching Basic Serving Arrangement (BSA) rates for price cap carriers would first be calculated. That ratio would then be applied to NECA's cost-justified Local Switching BSA rate to establish an introductory ANI rate for the pool. This approach would increase the assurance that the applicable rate elements are reasonable, thereby encouraging faster introduction of new service offerings. Parties would also benefit from the reduced preparation and review efforts associated with this simplified cost justification requirement.²³

NECA believes that even greater long term benefits may be achieved by extending the introductory service provisions to

²³ The Notice at ¶ 16 proposes that under the optional incentive plan ECs must recalculate rates for new services at the end of twelve months based on the historical costs of that service. NECA suggests that new cost-justified rates for traditional rate of return carriers would only be required when the two percent revenue level is exceeded.

existing rate elements which also fall under the two percent or less revenue standard. Currently, only NECA's End User Subscriber Line, Carrier Common Line, Local Switching, Local Transport Termination and Local Transport Facility rate elements generate revenue beyond the two percent revenue standard. By contrast, NECA's special access rates as a whole represent only about four percent of total pool revenue requirements but require individual rate development activities for more than 120 access rate elements.²⁴

NECA recommends, therefore, that the same cost support requirements apply to existing as well as new rate elements if the two percent revenue test is met. In each annual filing, NECA rates meeting the revenue threshold could be left unchanged, adjusted to the highest price cap carrier rate, or adjusted by application of the price cap carrier element/subelement ratio described above. Customers would benefit from reduced rate churn; ECs would benefit from reduced cost justification efforts for rate elements producing de minimis revenues; and the Commission would further its goal to reduce regulatory burdens for traditional rate of return carriers.

III. PRICING FLEXIBILITY SHOULD ALSO BE EXTENDED TO TRADITIONAL RATE OF RETURN REGULATION EXCHANGE CARRIERS.

The Commission's Notice acknowledges that "many rate of return

²⁴ See NECA 1992 Annual Access Tariff Filing at Volume 1, Description and Justification, Exhibits 5 and 6. In this filing, Special Access is 3.97% of total projected revenue requirements.

regulated LECs may require a degree of pricing flexibility."²⁵ The Notice then proposes to incorporate "basket" and "service category" pricing flexibility similar to that of price cap regulation into the optional incentive plan.²⁶ The Notice, does not, however, propose any degree of pricing flexibility for traditional rate of return exchange carriers. Carriers under traditional rate of return regulation must be able to maintain access rate relationships similar to those of the larger ECs.

NECA proposes that traditional rate of return carriers should be permitted the option to change rates by five percent up or down during the tariff period.²⁷ This option could be exercised if it resulted in no cumulative revenue impact based on prospective test period demand as measured within either the traffic sensitive-switched or traffic sensitive-special access rate groupings as applicable.²⁸ NECA also proposes that these filings should be made on 14 days' notice with a presumption of lawfulness provided that

²⁵ Notice at ¶ 17.

²⁶ Notice at ¶ 18.

²⁷ NECA also recommends that rate relationships established through the use of this pricing flexibility should be permitted to continue into subsequent tariff periods. NECA supports USTA's Comments which suggest that a rate adjustment factor is necessary to transition "flexed" rates into the next comprehensive tariff filing.

²⁸ NECA is not proposing to extend pricing flexibility to its carrier common line or end user common line rate elements. Further, NECA proposes no modifications to the rate development processes for these rate elements. For traffic sensitive, however, NECA's pricing flexibility recommendation mirrors USTA's proposal in its May 1, 1992 Supplement on Small and Mid-size Telephone Company Regulatory Reform. See USTA Ex Parte Letter in this proceeding filed by Linda Kent on July 29, 1992.

a showing of revenue neutrality on a prospective basis is included in the filing.²⁹

Extending revenue-neutral pricing flexibility, on an optional basis, to the NECA pools and traditional rate of return carriers will benefit the ratepayer as well as promote pool neutrality. Pooling ECs would be able to offer customers competitive services with the option of pricing alternatives similar to those available to customers of larger ECs. Pool neutrality is achieved by removing pricing flexibility as a possible incentive to depool or to remain depooled.

IV. ECS ELECTING OPTIONAL INCENTIVE REGULATION PLANS SHOULD BE ALLOWED EXOGENOUS-LIKE TREATMENT OF LONG TERM SUPPORT OBLIGATIONS.

The Commission's Notice outlines requirements for ECs electing optional incentive regulation under proposed Section 61.50 rules (47.C.F.R. §61.50) and revised Section 61.39 (47 C.F.R. §61.39) rules. The Notice is, however, silent on the treatment of Long Term Support (LTS) obligations of small and mid-size companies exiting the NECA Common Line Pool under these options. All companies exiting the Common Line Pool automatically assume LTS obligations.³⁰ NECA recommends that these carriers be permitted

²⁹ As stated in the Notice at ¶ 18, the Commission has defined a showing of revenue neutrality as "absent a change in demand, the rate changes would generate the same revenue in each basket."

³⁰ See 47 C.F.R. §69.612 for rules regarding LTS obligations for ECs exiting the Common Line Pool. Regarding ECs seeking to re-enter the Common Line Pool, NECA supports the proposal in USTA's Ex Parte filing (see note 28 supra) that carriers with less than

exogenous-like treatment of their LTS obligations, similar to that currently extended to carriers subject to price cap regulation.³¹ These carriers must have the ability to flow-through changes in their LTS obligations on a timely basis resulting from NECA tariff filings changing LTS levels.

V. NECA PROPOSES PART 69 RULE LANGUAGE FOR OPTIONAL POOL INCENTIVE PLANS.

The Commission acknowledges that "NECA performs a necessary role in the fulfillment of the mandates of the Communications Act, [and] incentive regulation for NECA participants presents a series of difficult issues".³² The Notice encourages NECA and others to determine if it is possible to introduce incentive plans within a pooling environment. Both a general rule change and specific proposals are requested by the Notice.

The Commission's view that it is a complex task to design incentive plans for the pools is accurate. Nevertheless, NECA agrees with the Commission that optional incentive plans for the pools should be explored and believes that solutions may be

50,000 access lines may re-enter the Common Line Pool as long as these carriers are required to maintain their LTS obligations. Any carrier participating in NECA's Common Line Pool that has LTS obligations would be treated as an exception to the uniform application of NECA's carrier common line (CCL) rate. CCL rates for such carriers would contain an additive to the NECA CCL rate that would reflect individual LTS obligations. NECA agrees that this treatment will ensure that there is no material impact on the Common Line Pool and its participants by re-entry of carriers with less than 50,000 access lines.

³¹ See 47 C.F.R. §61.45(d)(1)(iv).

³² Notice at ¶ 46, 47.

possible.

In response to the Commission's request, NECA proposes a rule revision that would "enable the implementation of incentive options within the pool at some future time."³³ While NECA is not able to describe precisely how any optional pool incentive plan would work at this time, adoption of a general rule will encourage further efforts in formulating such plans.

VI. THE BENEFITS OF THE AVERAGE SCHEDULE PROCESS SHOULD BE EXTENDED TO ADDITIONAL EXCHANGE CARRIERS.

NECA proposes that §69.605 of the Commission's Rules (47 C.F.R. §69.605), which restricts average schedule settlement methods to only those telephone companies that were "participating in average schedule settlements on December 1, 1982" be revised. As an additional enhancement to the regulatory reforms achieved in this proceeding, NECA requests that the Commission permit small exchange carriers to elect average schedule status, effective July 1, 1993.³⁴

There are several beneficial reasons for making this change. By permitting small ECs to convert to average schedule status, the Commission will relieve them and their ratepayers of the financial and administrative burden of conducting detailed cost separations

³³ Notice at ¶ 48. These proposed rule revisions to §69.607 are contained in Appendix A.

³⁴ The dates shown in Appendix A illustrate the connection between the pool election and tariff effective dates. If the proceeding is not concluded in time for December 31, 1992 tariff elections the dates should be altered.

studies. NECA estimates, for example, that had existing average schedule companies performed cost studies in 1992 they would have incurred about \$16 million in expenses.³⁵ Allowing this option would also extend the Commission's regulatory reform accomplishments by further simplifying and reducing regulatory burdens on small telephone companies.

As the telecommunications industry and the access charge plan have evolved since divestiture, the need for cost studies has lessened. Most states now do not require small telephone companies to perform separations studies in order to determine intrastate costs.³⁶ Conducting cost studies solely to isolate the interstate portion of operations, therefore, may be an unnecessary burden for many small exchange carriers.

In addition, the average schedule formulas now more closely simulate cost company settlements and better reflect actual interstate access costs. The schedules have progressively become more representative by incorporating the effects of separations and accounting reform, by reflecting average schedule company use of Part 32, by using new costing methodologies which more closely parallel the cost study process, and by introducing new schedules that provide settlements for new technologies.

The Commission has previously acknowledged the benefit of

³⁵ This estimate is based on the current 663 average schedule companies each incurring about \$25,000 by performing cost studies.

³⁶ NECA Regional Offices report that seven states have rescinded cost study requirements in 1992, leaving only ten states that retain those regulations.

allowing small cost companies to convert to average schedules by twice waiving the average schedule restriction.³⁷ The Commission has also recognized that circumstances could become appropriate for further modification of this rule. In its 1987 Order granting small ECs an option to convert to average schedule status, the Commission noted "the possibility [exists] that changes in circumstances may, in the future, warrant additional opportunities for cost companies to convert to average schedule treatment."³⁸

Recognizing the many changes that have occurred in the industry, the Commission should now permit small exchange carriers to join in the average schedule process on a regular basis. NECA proposes, however, that the Commission establish certain requirements and conditions for ECs using this option.

NECA believes that it is reasonable to establish a time constraint that prevents frequent conversions back and forth between cost and average schedule status. NECA proposes that any average schedule company electing to convert to cost settlements after the initial implementation date for this rule would not be allowed to convert back to average schedule status for four years.³⁹ Settlements that are based on actual costs enable

³⁷ See NECA's Proposed Waiver of Section 69.605(c) of the Commission's Rules, CC Docket No. 78-72, Phase I, Order, 2 FCC Rcd 3960 (1987) (Proposed Waiver) and Petitions Seeking Average Schedules Settlements for Affiliated Cost Companies with 5,000 or Fewer Access Lines, Order, 3 FCC Rcd 6003 (1988).

³⁸ See Proposed Waiver, 2 FCC Rcd at 3960.

³⁹ Partially removing the restriction against new average schedule companies could be perceived as an opportunity to make frequent status changes for small settlement increases. NECA

companies to reflect their actual circumstances, however, and will continue to be the preferred method for many telephone companies. It would not be desirable, therefore, to prevent an average schedule company from returning to cost status for any set period of time. A commitment to surrender average schedule status for a specified time, however, appears to be reasonable.

In addition, NECA believes that the rule should specify that the conversion option is available to ECs with fewer than 10,000 access lines.⁴⁰ This threshold will minimize effects on current average schedule companies and NECA pool revenue requirements.⁴¹ The modified rule should require that eligible companies first make the election by December 31, 1992, for an effective date of July 1, 1993, so that these changes can be reflected in NECA's 1993 annual

believes the four-year cost status commitment period will help assure that the conversion plan works as intended. Average schedule companies electing to exit the NECA pools to file optional tariffs under Section 61.39 must also wait four years before returning to average schedule status. ECs currently filing §61.39 tariffs, however, would not be precluded from returning to average schedule status if they meet other eligibility requirements.

⁴⁰ The 10,000 access line restriction should apply separately to each study area, regardless of company affiliation.

⁴¹ Setting the eligibility level at 10,000 access lines assures that pool revenue requirement changes are minimal. Based on 1992 estimates, the maximum increase in total NECA pool revenue requirements would be \$13.8 million or 0.7 percent. That estimate assumes that all of the eligible cost companies that might project settlement increases would do so, and that any company projecting a decrease would not make the election. This pool impact also does not reflect the savings that would be achieved by reduced cost study expenses. A company size threshold, therefore, assures that the initial pool impacts would be minimal, and it would be expected that the effects of subsequent conversions would be smaller yet.

access tariff filing.⁴² A continuing opportunity to convert to average schedule status on a shorter notice would be allowed in subsequent tariff periods. After July 1, 1994, exchange carriers under 10,000 access lines would be allowed to convert to average schedules upon the same 60 days' notice now applicable for average schedule to cost conversion.

Finally, NECA proposes that ECs utilizing these revised options do so for all access elements, and that ECs re-entering the Common Line Pool pursuant to these revisions be subject to Long Term Support obligations.⁴³

NECA believes this proposed extension of average schedule eligibility is consistent with the goals of this proceeding and would benefit the industry and the ratepayer, as well as telephone companies remaining under rate of return regulation.

VII. NECA PROPOSES RULE REVISIONS TO ACCURATELY REFLECT POOL SETTLEMENTS.

In addition, NECA proposes to amend Part 69 to reflect the pooling processes NECA has been operating under since the inception of access charges on May 25, 1984. NECA filed a Petition for Rulemaking on October 23, 1985 seeking to amend Part 69 to replace the hypothetical net balance approach with the traditional

⁴² See note 34 supra.

⁴³ See Section IV supra.